

FINANCIAL STATEMENTS

Town of Smyrna

Kent County, Delaware

December 31, 2007

TOWN OF SMYRNA

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INDEPENDENT AUDITORS' REPORT

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July 28, 2008

To the Honorable Mayor and Town Council
Town of Smyrna
Smyrna, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Smyrna, Smyrna, Delaware, as of and for the year ended December 31, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Smyrna's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Smyrna, Smyrna, Delaware, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2008, on our consideration of the Town of Smyrna's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smyrna's basic financial statements. The combining nonmajor governmental fund financial statements on pages 48 and 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor

To the Honorable Mayor and Town Council
Town of Smyrna

governmental fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 - 12 and the schedule of funding progress - pension plans on page 47 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Barbaccane, Thornton & Company
BARBACANE, THORNTON & COMPANY

Town of Smyrna

Management's Discussion and Analysis - Unaudited

December 31, 2007

The Honorable Mayor and Town Council are pleased to present to readers of the financial statements of the Town of Smyrna this narrative overview and analysis of the financial activities of the Town for the calendar year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- In the governmental activities, general revenues and transfers accounted for 56 percent of total revenues and program revenues 44 percent of total revenues (prior year, 63 percent and 37 percent, respectively). A significant portion of the general revenues decrease is attributable to reduced revenues from transfer taxes from the sale of homes as compared to the prior year. The decrease was made up partially by an increase in operating transfers in from business-type activities to subsidize governmental activity operations. The increase in program revenues is mostly attributed to an increase in trash fees and impact fees/special assessments related to construction activities in the Town. In addition, the Town received developer capital asset contributions and increased investment earnings due to higher interest rates and amounts available for investment.
- In the governmental activities, current total expenditures increased from \$7,213,932 in 2006 to \$7,702,874 in 2007. This represents a seven percent increase. This increase is attributable mostly to additional depreciation expense recorded for the capital assets that were contributed to the Town by outside developers.
- Total revenues in the Town's General Fund decreased from \$5,318,714 in 2006 to \$5,256,636 in 2007. This represents a one percent decrease in total revenues for the General Fund. This decrease is attributable to a significant decrease in transfer taxes which was offset by an increase in special assessment fees and charges for services.
- As of the end of the current fiscal year, the Town's Governmental Funds reported combined ending fund balances of \$4,933,140 which is an increase from the prior year balance of \$4,276,735. This increase is attributable to an increase in operating transfers from the proprietary funds to the capital reserve fund to fund various capital projects. Current year transfers in to the capital reserve fund totaled \$1,543,211 as compared to last year's total of \$298,421.
- As of the end of the current fiscal year, the Town's business-type activities and proprietary funds reported combined net assets of \$21,016,471, an increase of \$1,971,442 as compared to the prior year. The current year increase in net assets can be attributed to capital acquisitions net of any applicable debt and the results of current year operations. User charges approximated the prior year due to stable rates and a slight increase in customers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town of Smyrna's basic financial statements are comprised of three components:

1. Entity-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
December 31, 2007

This report also contains other supplementary information in addition to the basic financial statements themselves.

Entity-wide Financial Statements. The entity-wide *financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. There are two entity-wide statements presented in this report.

- The *Statement of Net Assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (e.g., uncollected taxes and compensated absences.)

Both of the entity-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

In the entity-wide financial statements, the District's activities are divided into two categories:

- ***Governmental Activities:*** Most of the Town's basic services are included here, such as general government, public safety, public works, sanitation, economic development, and culture and recreation.
- ***Business-type Activities:*** The Town charges fees to help it cover the costs of certain services provided, such as water and sewer operations and an electric distribution operation. The Town purchases 100 percent of its electric supply requirements from the Delaware Municipal Electric Corporation (DEMEC) under a long-term full requirements service contract. In addition, the Town is charged a fee by Kent County to discharge the Town's proportionate share of waste water into its respective facilities under an operating contract.

The entity-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements. The fund financial statements provide more detailed information about the Town's funds. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds: Most of the Town's basic services are included in Governmental Funds. *Governmental Funds* are used to account for essentially the same functions reported as *governmental activities* in the entity-wide financial statements. However, unlike the entity-wide financial statements, Governmental Fund financial statements focus on *short-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
December 31, 2007

Because the focus of Governmental Funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for *Governmental Funds* with similar information presented for *governmental activities* in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *Governmental Funds* and *Governmental Activities*.

The Town maintains several individual Governmental Funds. Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Capital Reserve Funds, both of which are considered to be major funds.

Data from the Nonmajor Governmental Funds are combined into a single, aggregated presentation. Individual fund data for each of these Nonmajor Governmental Funds is provided in the form of *combining statements* in this report.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The basic Governmental Fund financial statements can be found on pages 15 to 18 of this report.

Proprietary Funds: The Town maintains two different types of Proprietary Funds: the Water and Sewer Fund and the Electric Fund. These funds are Enterprise Funds. *Enterprise Funds* are used to report the same functions presented as *Business-type Activities* in the entity-wide financial statements. These funds account for the financial transactions related to the water and sewer operations and electric distribution operations of the Town.

Proprietary Funds provide the same type of information as the entity-wide financial statements, only in more detail. The Proprietary Fund financial statements provide separate information for the Water and Sewer Fund and for the electric distribution operation, both of which are considered to be major funds of the Town.

The basic Proprietary Fund financial statements can be found on pages 20 to 22 of this report.

Fiduciary Funds: The Town is the fiduciary for assets that belong to others, such as its employee pension plans. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes and by those to whom the assets belong. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary Funds are *not* reflected in the entity-wide financial statement because the resources of those funds are *not* available to support the Town's own programs.

The basic Fiduciary Fund financial statements can be found on page 23 and 24 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the entity-wide and fund financial statements. The notes to the financial statements can be found on pages 25 to 45 of this report.

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
December 31, 2007

Other Information. The combining statements referred to earlier in connection with the Nonmajor Governmental Funds are presented immediately following the footnotes. Combining and individual fund statements and schedules can be found on pages 48 and 49 of this report.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Smyrna, assets exceeded liabilities by \$41,211,395 at the close of the most recent calendar year. The table below summarizes the net assets of the Town at December 31, 2007 and 2006.

STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets:						
Current and other assets	\$ 5,900,175	\$ 4,914,011	\$ 5,795,764	\$ 4,172,568	\$11,695,939	\$ 9,086,579
Capital assets	15,557,668	14,937,262	25,839,506	24,306,394	41,397,174	39,243,656
Total Assets	<u>21,457,843</u>	<u>19,851,273</u>	<u>31,635,270</u>	<u>28,478,962</u>	<u>53,093,113</u>	<u>48,330,235</u>
Liabilities:						
Long-term liabilities	297,224	396,725	7,581,160	1,611,277	7,878,384	2,008,002
Other liabilities	965,695	695,379	3,037,639	7,822,656	4,003,334	8,518,035
Total Liabilities	<u>1,262,919</u>	<u>1,092,104</u>	<u>10,618,799</u>	<u>9,433,933</u>	<u>11,881,718</u>	<u>10,526,037</u>
Net Assets:						
Invested in capital assets, net of related debt	15,557,668	14,937,262	18,048,736	17,123,013	33,606,404	32,060,275
Unrestricted	268,091	432,887	2,967,735	1,922,016	3,235,826	2,354,903
Restricted	4,369,165	3,389,020	-	-	4,369,165	3,389,020
TOTAL NET ASSETS	<u>\$20,194,924</u>	<u>\$18,759,169</u>	<u>\$21,016,471</u>	<u>\$19,045,029</u>	<u>\$41,211,395</u>	<u>\$37,804,198</u>

By far the largest portion of the Town's net assets (82 percent) reflects its investments in capital assets (e.g. land, buildings, machinery, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Town uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (11 percent) represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$3,235,826, may be used to meet the government's ongoing obligations to citizens and creditors.

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
December 31, 2007

The Town's net assets increased by \$3,407,197 during the current year. This growth represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses, rate increases, increases in developer contributions and investment earnings.

Governmental Activities. Governmental activities increased the Town's net assets by \$1,435,755, thereby accounting for 42 percent of the total growth in the net assets of the Town. Key elements of this increase are as follows:

- Operating transfers in from the business-type activities increased by \$845,771 (52 percent) during the year. Most of this increase was to fund various capital projects.
- Developer capital asset contributions totaled \$765,145.

Business-type Activities. Business-type activities increased the Town's net assets by \$1,971,442, accounting for 58 percent of the total growth in the Town's net assets. Key elements of this increase are as follows:

- Developer contributions as a result of ongoing construction activities in the Town to install infrastructure which provides services to these newly constructed areas, i.e. electrical service. In addition, the Town recorded developer capital asset contributions.
- The remaining increase represents the degree to which increases in ongoing revenues in the business-type activities have outstripped similar increases in ongoing expenses, rate increases, increases in developer contributions and investment earnings.

Changes in the net assets of the Town are highlighted in the following table:

STATEMENT OF CHANGES IN NET ASSETS

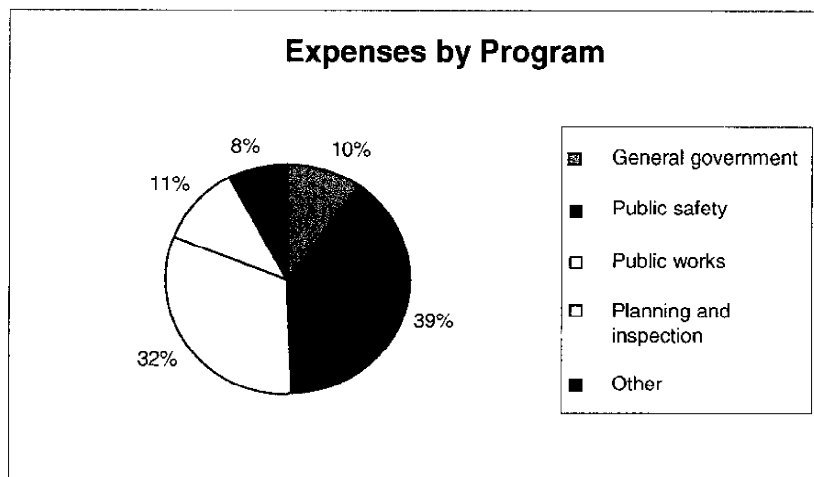
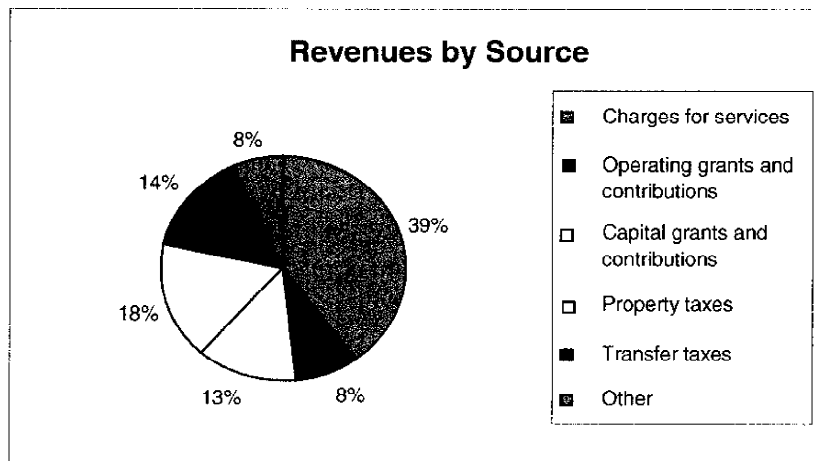
	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
REVENUES						
Program revenues:						
Charges for services	\$ 2,632,534	\$ 2,054,089	\$15,259,973	\$15,339,833	\$17,892,507	\$17,393,922
Operating grants and contributions	554,430	558,849	-	-	554,430	558,849
Capital grants and contributions	851,855	2,872,736	-	30,960	851,855	2,903,696
General revenues:						
Property taxes	1,201,024	1,092,855	-	-	1,201,024	1,092,855
Transfer taxes	962,133	1,534,963	-	-	962,133	1,534,963
Utility franchise fees	116,123	105,001	-	-	116,123	105,001
Investment earnings	303,640	222,231	1,805	2,949	305,445	225,180
Sale of capital assets	-	3,382	-	5,837	-	9,219
Developer contributions	-	-	2,267,173	3,940,084	2,267,173	3,940,084
Other	42,196	44,257	-	-	42,196	44,257
TOTAL REVENUES	6,663,935	8,488,363	17,528,951	19,319,663	24,192,886	27,808,026
EXPENSES						
General government	759,203	857,943	-	-	759,203	857,943
Public safety	3,038,754	3,163,053	-	-	3,038,754	3,163,053
Public works	2,463,952	1,723,522	-	-	2,463,952	1,723,522
Planning and inspection	836,185	753,951	-	-	836,185	753,951
Library	283,318	381,555	-	-	283,318	381,555
Culture and recreation	301,762	269,896	-	-	301,762	269,896
Business park	12,805	13,906	-	-	12,805	13,906
Neighborhood housing rehabilitation	6,895	50,106	-	-	6,895	50,106
Electric	-	-	10,582,868	9,778,074	10,582,868	9,778,074
Water/sewer	-	-	2,499,947	2,280,198	2,499,947	2,280,198
TOTAL EXPENSES	7,702,874	7,213,932	13,082,815	12,058,272	20,785,689	19,272,204

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
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STATEMENT OF CHANGES IN NET ASSETS

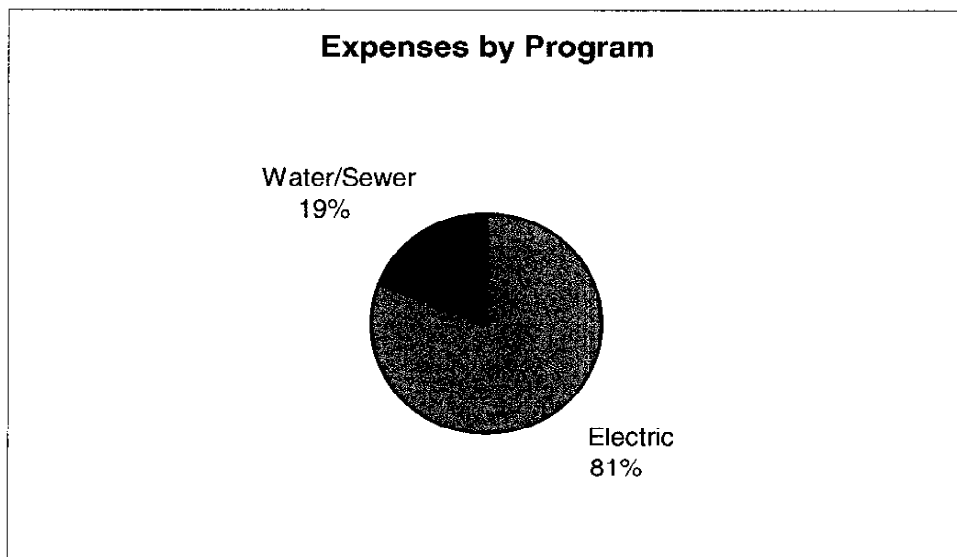
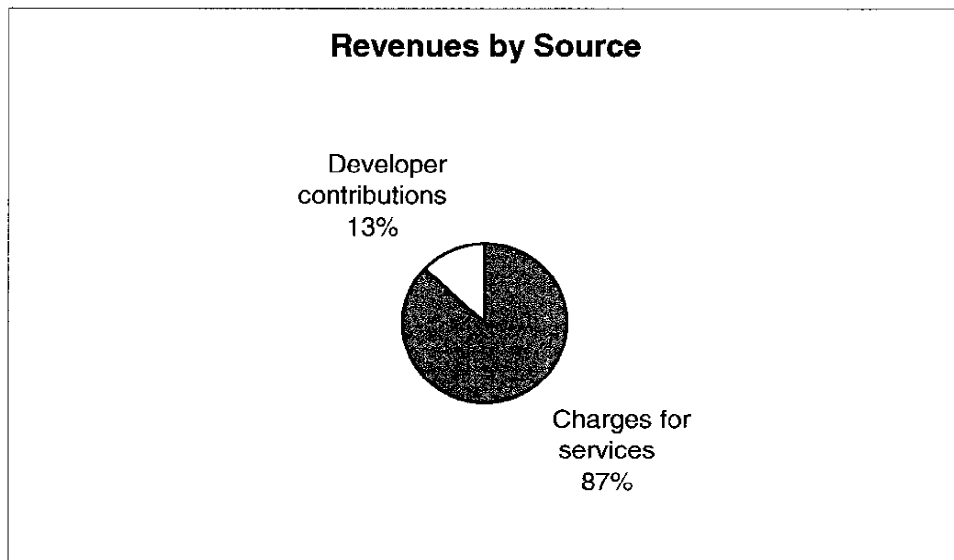
(cont'd)	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Change in net assets before transfers	(1,038,939)	1,274,431	4,446,136	7,261,391	3,407,197	8,535,822
Transfers	2,474,694	1,628,923	(2,474,694)	(1,628,923)	-	-
CHANGE IN NET ASSETS	1,435,755	2,903,354	1,971,442	5,632,468	3,407,197	8,535,822
NET ASSETS, BEGINNING OF YEAR	18,759,169	15,855,815	19,045,029	13,412,561	37,804,198	29,268,376
NET ASSETS, END OF YEAR	\$20,194,924	\$18,759,169	\$21,016,471	\$19,045,029	\$41,211,395	\$37,804,198

The following charts illustrate the revenue sources and uses of funds for the Governmental Activities of the Town:



**Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
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The following charts illustrate the revenue sources and uses of funds for the Business-type Activities of the Town:



Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
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FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's *Governmental Funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the calendar year.

As of the end of the current calendar year, the Town's Governmental Funds reported combined ending fund balances of \$4,933,140. The primary component of this figure is the fund balance of the Capital Reserve Fund at \$4,105,139, which is reserved for future capital projects.

The General Fund is the primary operating fund of the Town. At the end of the current calendar year, the fund balance of the General Fund was \$563,975, of which \$518,895 was considered unrestricted. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. As of December 31, 2007, unreserved, undesignated fund balance represented approximately eight percent of total general fund expenditures.

The fund balance of the Town's General Fund decreased by \$323,740 during the current calendar year. Key factors in this decrease are as follows:

- A decrease in transfer taxes received from \$1,534,963 in 2006 to \$962,133 in 2007.
- A decrease in operating transfers from the proprietary funds to subsidize General Fund operations by \$191,212.

Proprietary Fund. The Town's Proprietary Funds provides the same type of information found in the entity-wide financial statements but in more detail.

The unrestricted net assets of the Water and Sewer Fund and the Electric Fund at the end of the year amounted to \$2,967,735. The total growth in net assets for both funds was \$706,594 and \$1,264,848, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the Town's budget and actual results can be found on page 19. A summary of variations between budget amounts and actual results are as follows:

- Original budgeted revenues and expenditures increased relative to intergovernmental revenues for grants that were not originally anticipated during the 2007 budgeting process.
- Actual revenues exceeded budgeted amounts by \$241,336. Amounts received for transfer taxes were \$637,867 less than budget and was offset by special assessments and impact fees in excess of budgeted amounts by \$623,486.
- Actual expenditures were \$59,961 under budgeted amounts, or .08 percent of the total budget.

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
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Capital Assets and Debt Administration

Capital Assets. The Town's investment in capital assets for its Governmental and Business-type Activities as of December 31, 2007 amounts to \$41,397,174 (net of accumulated depreciation). The following table shows the breakdown of this figure.

CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 1,195,768	\$ 812,568	\$ 45,171	\$ 45,171	\$ 1,240,939	\$ 857,739
Construction-in-progress	714,069	1,315,084	651,157	1,009,747	1,365,226	2,324,831
Land improvements	225,841	194,149	-	-	225,841	194,149
Buildings and improvements	1,689,448	1,536,982	2,460,956	2,260,127	4,150,404	3,797,109
Infrastructure	10,567,477	9,865,756	22,287,500	20,518,447	32,854,977	30,384,203
Machinery and equipment	1,165,065	1,212,723	394,722	472,902	1,559,787	1,685,625
	<u>\$15,557,668</u>	<u>\$14,937,262</u>	<u>\$25,839,506</u>	<u>\$24,306,394</u>	<u>\$41,397,174</u>	<u>\$39,243,656</u>

Major capital asset events during the current fiscal year included the following:

- Significant capital asset events within the Governmental Activities included ongoing costs for the parking lot expansion project totaling \$191,780, the municipal complex construction project totaling \$175,623, and machinery and equipment purchases for the police totaling \$169,060.
- Significant capital asset events within the Business-type Activities included the completion of the North Water Tower construction project totaling \$256,949 and electrical installation costs as a result of continued growth in Smyrna totaling \$1,562,783.
- The Town also recorded in its financial records this year developer capital asset contributions for the governmental activities totaling \$9,565,069 and \$8,156,732 for the Business-type Activities. Of these amounts, \$8,208,908 and \$7,225,350, respectively, relate to prior years and have been correctly recorded as a prior period adjustment in the accompanying financial statements.

Additional information on the Town's capital assets can be found in Note 4 of this report.

	Business-type Activities Outstanding Debt	
	2007	2006
Loans payable	\$ 7,790,770	\$ 2,539,381
Bond anticipation note	-	4,644,000
TOTAL	<u>\$ 7,790,770</u>	<u>\$ 7,183,381</u>

The current legal long-term debt limit for the Town cannot exceed 4.5 percent of the total assessed valuation of all taxable property in the Town. This amounts to \$29,725,740 of the total assessed valuation which is significantly more than the Town's outstanding debt.

Town of Smyrna
Management's Discussion and Analysis - Unaudited (cont'd)
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In April 2007, the Town obtained permanent financing in the amount of \$4,644,000 to refinance a Bond Anticipation Note which matured on April 27, 2007. The Bond Anticipation Note was issued for a two-year period in anticipation of issuing permanent financing at a future date. The proceeds from the Bond Anticipation Note were used to finance the development and construction of an electric substation. This loan matures on May 14, 2012.

In addition, the Town financed \$766,470 from a revolving loan from the Delaware Department of Natural Resources and Environmental Control to complete the construction of the North Water Tower. In total this loan increased to \$1,725,582 in 2007 from \$959,112 in 2006. This loan matures on May 15, 2027.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Town adopted its 2008 General Fund budget in December 2007 totaling \$6,540,024 (includes indirect costs of \$1,272,850) in revenues and \$8,898,711 in expenditures. The difference between budgeted revenues and expenditures will be subsidized through operating transfers from the proprietary funds. This budget represents an increase in budgeted revenues of 11 percent and an increase in budgeted expenditures of 15 percent. Included in the budget was an increase in property taxes from 17.26 cents per \$100 of assessed value to 25.26 cents per \$100 of assessed value. This is intended as part of the commitment by Council to have a self-supporting general fund.
- The majority of the Town's city limits are in Kent County of which the unemployment rate for the county was reported at 3.4 percent in December 2007. This compared favorably to the state's unemployment rate of 3.5 percent.
- The Town's total population at December 2007 is currently estimated at 9,975, an increase from the 2000 census, which placed the Town's total population at 5,679. It also is an increase from the estimated population at December 2006 of 9,513.
- The Town's occupancy rate for its central business district is currently 94 percent.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager of Accounting and Business Services, Town of Smyrna, P.O. Box 307, 27 South Market Street Plaza, Smyrna, DE 19977.

TOWN OF SMYRNA
STATEMENT OF NET ASSETS
DECEMBER 31, 2007
(With Summarized Comparative Data for December 31, 2006)

	Governmental Activities	Business-type Activities	Totals
	2007	2006	2006
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 51,714	\$ 1,650,174	\$ 898,357
Investments	4,912,698	105,332	4,137,713
Taxes receivable	162,950	-	193,488
Accounts receivable	392,747	2,593,548	2,774,918
Other receivables	-	411,858	-
Inventory	-	951,547	716,245
Due from other governments	64,200	-	10,212
Prepaid expenses	118,681	26,840	121,401
Internal balances	152,105	(152,105)	-
Land held for resale	45,080	-	45,080
Restricted Assets:			
Meter deposits	-	208,570	189,165
Total Current Assets	5,900,175	5,795,764	9,086,579
Noncurrent Assets:			
Capital assets, net:			
Land	1,195,768	45,171	857,739
Construction-in-progress	714,069	651,157	2,324,831
Land improvements	225,841	-	194,149
Buildings and improvements	1,689,448	2,480,956	3,797,109
Infrastructure	10,567,477	22,287,500	30,384,203
Machinery and equipment	1,165,065	394,722	1,685,625
Total Noncurrent Assets	15,557,668	25,839,506	39,243,656
TOTAL ASSETS	\$ 21,457,843	\$ 31,635,270	\$ 48,330,235
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 510,833	\$ 1,042,119	\$ 1,338,594
Accrued salaries and benefits	68,857	8,271	64,946
Accrued interest	-	20,648	10,170
Developer deposits	228,989	1,418,799	953,255
Deferred revenue	3,481	4,542	17,509
Accrued compensated absences	153,535	38,896	264,570
Current portion of loans payable	-	295,794	1,035,826
Bond anticipation note	-	-	4,644,000
Current Liabilities Payable from Restricted Assets:			
Meter deposits	-	208,570	189,165
Total Current Liabilities	965,695	3,037,639	8,518,035
Noncurrent Liabilities:			
Accrued compensated absences	297,224	86,184	504,447
Loans payable	-	7,494,976	1,503,555
Total Noncurrent Liabilities	297,224	7,581,160	2,008,002
TOTAL LIABILITIES	1,262,919	10,618,799	10,526,037
NET ASSETS			
Invested in capital assets, net of related debt	15,557,668	18,048,736	32,060,275
Unrestricted	268,091	2,967,735	2,354,903
Restricted for police	53,776	-	47,285
Restricted for public works	210,250	-	171,833
Restricted for capital projects	4,105,139	-	3,169,902
TOTAL NET ASSETS	20,194,924	21,016,471	37,804,198
TOTAL LIABILITIES AND NET ASSETS	\$ 21,457,843	\$ 31,635,270	\$ 48,330,235

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Summarized Comparative Data for the Year Ended December 31, 2006)

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
				Governmental Activities	Business-type Activities
Expenses				2007	2006
GOVERNMENTAL ACTIVITIES					
General government	\$ 759,203	\$ 843,486	\$ -	\$ 84,283	\$ (242,946)
Public safety	3,038,754	104,268	86,710	(2,646,483)	(2,730,006)
Public works	2,463,952	201,293	765,145	(474,544)	2,058,359
Planning and inspection	836,185	981,985	-	(178,193)	(222,399)
Library	283,318	657,992	-	(127,956)	(262,358)
Culture and recreation	301,762	44,803	-	(301,462)	(264,896)
Business park	12,805	300	-	(12,805)	(13,906)
Neighborhood housing rehabilitation	6,895	-	-	(6,895)	(50,106)
TOTAL GOVERNMENTAL ACTIVITIES	7,702,874	2,632,534	851,855	(3,664,055)	(1,728,258)
BUSINESS-TYPE ACTIVITIES					
Electric	10,582,868	12,392,787	-	1,809,919	2,806,767
Water/Sewer	2,499,947	2,867,186	-	367,239	505,754
TOTAL BUSINESS-TYPE ACTIVITIES	13,082,815	15,259,973	-	2,177,158	3,312,521
TOTAL PRIMARY GOVERNMENT	\$ 20,785,689	\$ 17,892,507	\$ 851,855	(1,486,897)	1,584,263
GENERAL REVENUES					
Taxes:					
Real estate taxes				1,201,024	1,092,855
Real estate transfer taxes				962,133	1,534,963
Utility franchise fees				116,123	105,001
Investment earnings				303,640	225,180
Miscellaneous				42,196	44,257
Gain on sale of capital assets				-	9,219
Developer contributions				2,267,173	3,940,084
Transfers				(2,474,694)	-
TOTAL GENERAL REVENUES AND TRANSFERS				4,894,094	6,951,559
CHANGE IN NET ASSETS				3,407,197	8,535,822
NET ASSETS, BEGINNING OF YEAR				37,804,198	29,268,376
NET ASSETS, END OF YEAR				\$ 41,211,395	\$ 37,804,198

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2007
(With Summarized Comparative Data for December 31, 2006)

	General	Capital Reserve Funds	Nonmajor Governmental Funds	Totals	
				2007	2006
ASSETS					
Cash and cash equivalents	\$ 5,329	\$ 25	\$ 46,360	\$ 51,714	\$ 130,913
Investments	444,936	4,253,992	213,770	4,912,698	4,137,713
Taxes receivable	162,950	-	-	162,950	193,488
Accounts receivable	392,748	-	-	392,748	294,942
Due from other funds	155,625	-	7,416	163,041	169,596
Due from other governments	64,200	-	-	64,200	10,212
Prepaid expenditures	118,681	-	-	118,681	100,723
Inventory	-	-	-	-	940
Land held for resale, net	45,080	-	-	45,080	45,080
TOTAL ASSETS	\$ 1,389,549	\$ 4,254,017	\$ 267,546	\$ 5,911,112	\$ 5,083,607
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 361,955	\$ 148,878	\$ -	\$ 510,833	\$ 312,526
Due to other funds	7,416	-	3,520	10,936	169,596
Accrued salaries and benefits	68,857	-	-	68,857	64,946
Deferred revenue	158,356	-	-	158,356	171,974
Developer deposits	228,990	-	-	228,990	87,830
TOTAL LIABILITIES	825,574	148,878	3,520	977,972	806,872
FUND BALANCES:					
Unreserved	518,895	-	-	518,895	842,635
Reserved for police	-	-	53,776	53,776	47,285
Reserved for public works	-	-	210,250	210,250	171,833
Reserved for capital projects	-	4,105,139	-	4,105,139	3,169,902
Fund balance - reserved for land for resale	45,080	-	-	45,080	45,080
TOTAL FUND BALANCES	563,975	4,105,139	264,026	4,933,140	4,276,735
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,389,549	\$ 4,254,017	\$ 267,546	\$ 5,911,112	\$ 5,083,607

The accompanying notes are an integral part of these financial statements.

**TOWN OF SMYRNA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

TOTAL GOVERNMENTAL FUND BALANCES	\$ 4,933,140
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,557,668
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Some of the Town's assets are not available to pay for current expenditures and therefore are not reported in the funds.	154,875
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Compensated absences that are not due and payable in the current period are not reported in the funds.	<u>(450,759)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 20,194,924</u>
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The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Summarized Comparative Data for the Year Ended December 31, 2006)

	General Fund	Capital Reserve Funds	Nonmajor Governmental Funds	Totals
	2007	2006	2007	2006
REVENUES				
Taxes:				
Property taxes	\$ 1,138,746	\$ -	\$ -	\$ 1,138,746
Transfer taxes	962,133	-	-	962,133
Special assessment/impact fees	843,486	-	-	843,486
Charges for services	929,401	-	-	929,401
Intergovernmental	382,348	-	239,506	621,854
Licenses, fees and permits	656,911	-	-	656,911
Fines and forfeits	76,161	-	-	76,161
Utility franchise fees	116,124	-	-	116,124
Investment income	90,427	198,592	14,621	303,640
Miscellaneous	60,899	45,095	2,225	108,219
TOTAL REVENUES	5,256,636	243,687	256,352	5,756,675
EXPENDITURES				
Current:				
General government	569,885	-	-	569,885
Public safety	3,157,556	-	47,084	3,204,640
Public works	1,599,062	-	234,932	1,833,994
Planning and inspection	838,069	-	-	838,069
Library	212,443	-	-	212,443
Culture and recreation	306,941	-	-	306,941
Business park	12,805	-	-	12,805
Neighborhood housing rehabilitation	6,895	-	-	6,895
Capital outlay	-	592,002	-	592,002
TOTAL EXPENDITURES	6,703,656	592,002	282,016	7,577,674
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(1,447,020)	(348,315)	(25,664)	(1,820,999)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	2,710	-	-	2,710
Transfers in	1,194,967	1,543,211	74,397	2,812,575
Transfers out	(74,397)	(259,659)	(3,825)	(337,881)
TOTAL OTHER FINANCING SOURCES	1,123,280	1,283,552	70,572	2,477,404
NET CHANGES IN FUND BALANCES	(323,740)	935,237	44,908	656,405
FUND BALANCES, BEGINNING OF YEAR	887,715	3,169,902	219,118	4,276,735
FUND BALANCES, END OF YEAR	\$ 563,975	\$ 4,105,139	\$ 264,026	\$ 4,933,140

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 656,405
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$804,188) exceeded capital outlays (\$720,494).	(83,694)
In the statement of activities, contributed assets are recognized as a capital contribution and as a capital assets, whereas in the governmental funds, they are not recognized.	764,875
The statement of activities reports a gain or loss on the disposal of capital assets based on the proceeds received and the net book value of the assets at the time of disposal. The loss on disposal is calculated as the excess of the assets disposed (\$105,187) over the accumulated depreciation of the assets disposed (\$44,412).	(60,775)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenues decreased by this amount this year.	(4,340)
Expenses accrued for compensated absences reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.	<u>163,284</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,435,755</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes:				
Property taxes	\$ 1,080,000	\$ 1,080,000	\$ 1,138,746	\$ 58,746
Transfer taxes	1,600,000	1,600,000	962,133	(637,867)
Special assessment/impact fees	220,000	220,000	843,486	623,486
Charges for services	882,000	882,000	929,401	47,401
Intergovernmental	174,000	366,000	382,348	16,348
Licenses, fees and permits	625,000	625,000	656,911	31,911
Fines and forfeits	150,000	150,000	76,161	(73,839)
Utility franchise fees	30,000	30,000	116,124	86,124
Investment income	60,000	60,000	90,427	30,427
Miscellaneous	-	2,300	60,899	58,599
TOTAL REVENUES	<u>4,821,000</u>	<u>5,015,300</u>	<u>5,256,636</u>	<u>241,336</u>
EXPENDITURES				
Current:				
General government	562,879	463,507	569,885	(106,378)
Public safety	3,086,135	3,278,135	3,157,556	120,579
Public works	1,485,974	1,485,974	1,599,062	(113,088)
Planning and inspection	861,638	861,638	838,069	23,569
Library	269,471	271,771	212,443	59,328
Culture and recreation	362,572	362,572	306,941	55,631
Business park	30,000	30,000	12,805	17,195
Neighborhood housing rehabilitation	10,020	10,020	6,895	3,125
TOTAL EXPENDITURES	<u>6,668,689</u>	<u>6,763,617</u>	<u>6,703,656</u>	<u>59,961</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,847,689)</u>	<u>(1,748,317)</u>	<u>(1,447,020)</u>	<u>301,297</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of capital assets	-	-	2,710	2,710
Transfers in	1,847,689	1,748,317	1,194,967	(553,350)
Transfers out	-	-	(74,397)	(74,397)
TOTAL OTHER FINANCING SOURCES	<u>1,847,689</u>	<u>1,748,317</u>	<u>1,123,280</u>	<u>(625,037)</u>
NET CHANGES IN FUND BALANCE	-	-	(323,740)	(323,740)
FUND BALANCE, BEGINNING OF YEAR	<u>887,715</u>	<u>887,715</u>	<u>887,715</u>	-
FUND BALANCE, END OF YEAR	<u>\$ 887,715</u>	<u>\$ 887,715</u>	<u>\$ 563,975</u>	<u>\$ (323,740)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2007
(With Summarized Comparative Data for December 31, 2006)

	Electric Fund	Water and Sewer Fund	Totals	
			2007	2006
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 818,192	\$ 831,982	\$ 1,650,174	\$ 767,444
Investments	105,332	-	105,332	-
Accounts receivable	2,221,073	372,475	2,593,548	2,479,976
Other receivables	411,858	-	411,858	-
Inventory	879,150	72,397	951,547	715,305
Prepaid expenses	19,028	7,812	26,840	20,678
Restricted Assets:				
Meter deposits	208,570	-	208,570	189,165
Total Current Assets	<u>4,663,203</u>	<u>1,284,666</u>	<u>5,947,869</u>	<u>4,172,568</u>
Noncurrent Assets:				
Capital assets, net	12,291,078	13,548,428	25,839,506	24,306,394
TOTAL ASSETS	<u>\$16,954,281</u>	<u>\$ 14,833,094</u>	<u>\$ 31,787,375</u>	<u>\$ 28,478,962</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 958,620	\$ 83,499	\$ 1,042,119	\$ 1,026,068
Accrued salaries and benefits	5,631	2,640	8,271	6,290
Due to other funds	152,105	-	152,105	-
Accrued interest	8,838	11,810	20,648	10,170
Developer deposits	1,418,799	-	1,418,799	865,425
Deferred revenue	3,696	846	4,542	4,749
Accrued compensated absences	28,669	10,227	38,896	40,963
Current portion of loans payable	146,920	148,874	295,794	1,035,826
Bond anticipation note	-	-	-	4,644,000
Current Liabilities Payable from				
Restricted Assets:				
Meter deposits	208,570	-	208,570	189,165
Total Current Liabilities	<u>2,931,848</u>	<u>257,896</u>	<u>3,189,744</u>	<u>7,822,656</u>
Noncurrent Liabilities:				
Accrued compensated absences	39,592	46,592	86,184	107,722
Loans payable	4,414,713	3,080,263	7,494,976	1,503,555
Total Noncurrent Liabilities	<u>4,454,305</u>	<u>3,126,855</u>	<u>7,581,160</u>	<u>1,611,277</u>
TOTAL LIABILITIES	<u>7,386,153</u>	<u>3,384,751</u>	<u>10,770,904</u>	<u>9,433,933</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,729,445	10,319,291	18,048,736	17,123,013
Unrestricted	1,838,683	1,129,052	2,967,735	1,922,016
TOTAL NET ASSETS	<u>9,568,128</u>	<u>11,448,343</u>	<u>21,016,471</u>	<u>19,045,029</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$16,954,281</u>	<u>\$ 14,833,094</u>	<u>\$ 31,787,375</u>	<u>\$ 28,478,962</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Summarized Comparative Data for the Year Ended December 31, 2006)

	Electric Fund	Water and Sewer Fund	Totals	
			2007	2006
OPERATING REVENUES				
User service charges	\$ 12,246,347	\$ 2,809,876	\$ 15,056,223	\$ 15,230,094
Other operating revenue	146,440	57,310	203,750	109,739
Total Operating Revenues	<u>12,392,787</u>	<u>2,867,186</u>	<u>15,259,973</u>	<u>15,339,833</u>
OPERATING EXPENSES				
Electric purchased	8,231,998	-	8,231,998	7,697,921
Sewer charges	-	970,761	970,761	899,060
System maintenance	64,643	106,905	171,548	132,976
Salaries and wages	655,711	407,163	1,062,874	995,233
Employee benefits	431,106	299,741	730,847	709,869
Depreciation	414,765	331,989	746,754	620,199
Supplies and maintenance	87,351	133,395	220,746	118,733
Truck and vehicles	30,438	10,204	40,642	56,589
Insurance	33,389	13,550	46,939	70,845
Administration expenses	47,584	37,580	85,164	169,103
Professional services	289,073	96,729	385,802	369,473
Minor capital additions	13,861	12,347	26,208	6,509
Total Operating Expenses	<u>10,299,919</u>	<u>2,420,364</u>	<u>12,720,283</u>	<u>11,846,510</u>
OPERATING INCOME	<u>2,092,868</u>	<u>446,822</u>	<u>2,539,690</u>	<u>3,493,323</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	1,791	14	1,805	2,949
Interest expense	(237,949)	(79,583)	(317,532)	(211,762)
Intergovernmental	(45,000)	-	(45,000)	30,960
Gain on sale of capital assets	-	-	-	5,837
Total Nonoperating Expenses	<u>(281,158)</u>	<u>(79,569)</u>	<u>(360,727)</u>	<u>(172,016)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>1,811,710</u>	<u>367,253</u>	<u>2,178,963</u>	<u>3,321,307</u>
Transfers in	100,538	159,120	259,658	33,498
Transfers out	(2,224,831)	(509,521)	(2,734,352)	(1,662,421)
Developer contributions	<u>1,577,431</u>	<u>689,742</u>	<u>2,267,173</u>	<u>3,940,084</u>
CHANGE IN NET ASSETS	<u>1,264,848</u>	<u>706,594</u>	<u>1,971,442</u>	<u>5,632,468</u>
NET ASSETS, BEGINNING OF YEAR	<u>8,303,280</u>	<u>10,741,749</u>	<u>19,045,029</u>	<u>13,412,561</u>
NET ASSETS, END OF YEAR	<u>\$ 9,568,128</u>	<u>\$ 11,448,343</u>	<u>\$ 21,016,471</u>	<u>\$ 19,045,029</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Summarized Comparative Data for the Year Ended December 31, 2006)

	Electric Fund	Water and Sewer Fund	Totals	
			2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Received from customers	\$ 11,689,668	\$ 2,917,912	\$ 14,607,580	\$ 14,632,055
Paid to suppliers for goods and services	(8,788,217)	(1,375,540)	(10,163,757)	(9,571,653)
Paid to employees for services	(1,071,685)	(743,660)	(1,815,345)	(1,689,248)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,829,766	798,712	2,628,478	3,371,154
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	100,538	159,120	259,658	33,498
Transfers out	(2,224,831)	(509,521)	(2,734,352)	(1,662,421)
Advances to other funds	(105,332)	-	(105,332)	-
Grant-in-aid	(45,000)	-	(45,000)	-
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(2,274,625)	(350,401)	(2,625,026)	(1,628,923)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from bond anticipation note	-	-	-	2,644,000
Proceeds from loan payable	4,644,000	766,470	5,410,470	959,112
Repayment of loans payable	(4,726,367)	(76,714)	(4,803,081)	(74,870)
Developer contributions and repayments of escrows, net	2,188,307	-	2,188,307	1,588,198
Proceeds from sale of capital assets	-	-	-	5,837
Acquisition and construction of capital assets	(1,174,053)	(416,069)	(1,590,122)	(6,358,665)
Interest paid	(229,111)	(79,585)	(308,696)	(201,592)
Proceeds from capital grant	-	-	-	30,960
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	702,776	194,102	896,878	(1,407,020)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	1,791	14	1,805	2,949
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,791	14	1,805	2,949
NET INCREASE IN CASH AND CASH EQUIVALENTS	259,708	642,427	902,135	338,160
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	767,054	189,555	956,609	618,449
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,026,762	\$ 831,982	\$ 1,858,744	\$ 956,609
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income	\$ 2,092,868	\$ 446,822	\$ 2,539,690	\$ 3,493,323
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	414,765	331,989	746,754	620,199
Changes in assets and liabilities:				
(Increase) Decrease in accounts receivable	(587,197)	61,767	(525,430)	(712,527)
(Increase) in inventory	(225,152)	(11,090)	(236,242)	(111,604)
(Increase) Decrease in prepaid expenses	(4,667)	(1,495)	(6,162)	34,584
Increase in accounts payable	10,120	5,931	16,051	7,006
Increase in due to other funds	152,105	-	152,105	-
Increase in accrued salaries and benefits	1,367	614	1,981	3,137
(Decrease) Increase in deferred revenue	(111)	(96)	(207)	4,749
(Decrease) Increase in meter deposit liability	(19,405)	-	(19,405)	19,570
(Decrease) Increase in compensated absences	(4,927)	(35,730)	(40,657)	12,717
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,829,766	\$ 798,712	\$ 2,628,478	\$ 3,371,154
Noncash capital and related financing activities:				
Contributions of capital assets from developers	\$ -	\$ 689,744	\$ 689,744	\$ 2,725,356
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS:				
Cash and cash equivalents	\$ 818,192	\$ 831,982	\$ 1,650,174	\$ 767,444
Meter deposits, restricted	208,570	-	208,570	189,165
TOTAL CASH AND CASH EQUIVALENTS	\$ 1,026,762	\$ 831,982	\$ 1,858,744	\$ 956,609

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2007
(With Summarized Comparative Data for December 31, 2006)

	Police Pension Trust Fund	Employee Pension Trust Fund	Totals	
			2007	2006
ASSETS				
Cash and cash equivalents	\$ 192,685	\$ 175,008	\$ 367,693	\$ 174,822
Investments	1,443,482	2,149,184	3,592,666	2,709,850
Insurance contracts	1,810,854	1,339,121	3,149,975	3,115,177
TOTAL ASSETS	<u>\$ 3,447,021</u>	<u>\$ 3,663,313</u>	<u>\$ 7,110,334</u>	<u>5,999,849</u>
LIABILITIES AND NET ASSETS				
LIABILITIES	\$ -	\$ -	\$ -	\$ -
NET ASSETS				
Assets held in trust for employee pension benefits	<u>3,447,021</u>	<u>3,663,313</u>	<u>7,110,334</u>	<u>5,999,849</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,447,021</u>	<u>\$ 3,663,313</u>	<u>\$ 7,110,334</u>	<u>\$ 5,999,849</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Summarized Comparative Data for the Year Ended December 31, 2006)

	<u>Police Pension Trust Fund</u>	<u>Employee Pension Trust Fund</u>	<u>Totals</u>	
			<u>2007</u>	<u>2006</u>
ADDITIONS:				
Contributions:				
Employer contribution	\$ 363,909	\$ 449,284	\$ 813,193	\$ 587,035
State aid - police	100,387	-	100,387	98,445
Total Contributions	<u>464,296</u>	<u>449,284</u>	<u>913,580</u>	<u>685,480</u>
Investment Income:				
Interest and dividends	140,755	130,299	271,054	229,563
Realized gain on sale of investments	59,370	100,494	159,864	66,930
Net appreciation in fair value of investments	26,600	21,381	47,981	171,971
Total Investment Income	<u>226,725</u>	<u>252,174</u>	<u>478,899</u>	<u>468,464</u>
TOTAL ADDITIONS	<u>691,021</u>	<u>701,458</u>	<u>1,392,479</u>	<u>1,153,944</u>
DEDUCTIONS:				
Benefits paid	137,315	71,408	208,723	205,091
Administrative expenses	38,962	34,309	73,271	59,988
TOTAL DEDUCTIONS	<u>176,277</u>	<u>105,717</u>	<u>281,994</u>	<u>265,079</u>
CHANGE IN NET ASSETS	514,744	595,741	1,110,485	888,865
NET ASSETS, BEGINNING OF YEAR	<u>2,932,277</u>	<u>3,067,572</u>	<u>5,999,849</u>	<u>5,110,984</u>
NET ASSETS, END OF YEAR	<u>\$ 3,447,021</u>	<u>\$ 3,663,313</u>	<u>\$ 7,110,334</u>	<u>\$ 5,999,849</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Smyrna complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

The Town of Smyrna, Delaware (the "Town") was incorporated in 1817, under the provisions of the State of Delaware. The Town operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, utilities, culture and recreation, planning and inspection, and general government.

The Government Accounting Standards Board established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Town's financial reporting entity are financial interdependences, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships.

The Town has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Town's financial statements. In addition, the Town is not aware of any entity which would exercise such oversight which would result in the Town being considered a component unit of the entity.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Town. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the last are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. In addition, the fund financial statements present fiduciary funds by fund type.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The entity-wide financial statements report net assets in one of three components. Invested in net assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from special revenue and capital funds. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other revenues, including charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Long-term debt issues and acquisitions under capital leases are reported as other financing sources.

The Town reports the following major governmental funds:

General Fund – This fund is used to account for the general operating activities of the Town. General government, library, public safety, public works, culture and recreation, planning and inspections, and the business park are financed through this fund with receipts from general property taxes, transfer taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental and other revenue.

Capital Reserve Fund – This fund is used to account for the design, construction and improvement of Town buildings, land improvements, and the purchase and replacement of vehicles and machinery and equipment.

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary funds are electric and water/sewer charges. Operating expenses for the Town's proprietary funds include salaries, employee benefits, production costs, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

Electric Fund - Used to account for the operation of an electric distribution system.

Water and Sewer Fund - Used to account for the operation of a water supply and sewage collection system.

Fiduciary funds account for assets held by the Town as a trustee for individuals, private organizations and/or governmental units and are, therefore, not available to support the Town's operations. The measurement focus and basis of accounting for fiduciary funds is the same as for proprietary funds.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Town also reports the following fund type:

Pension Trust Funds - These funds are used to account for the assets held by the Pension Plan in a trustee capacity for the employees of the Town. The Pension Plan, which is part of the Town's legal entity, is a single-employer defined benefit pension plan that provides benefits to Town employees.

All entity-wide and business-type activities and proprietary funds of the Town follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Town also has the option to follow subsequent private-sector guidance for its business-type activities and proprietary funds with certain limitations, but has elected not to do so.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Allowance for Doubtful Accounts

The Town of Smyrna's water, sewer and electric utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Electric fees do not constitute a lien; however, maintenance of adequate customer deposits, monthly billing and diligent collection procedures minimize losses from uncollectible accounts. Accordingly, an allowance for doubtful accounts has not been established by the Town for its proprietary funds.

Inventories and Prepaid Expenses

Inventories of business-type activities and proprietary fund types are valued at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets, including property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. The Town has defined capital assets as assets with an initial, individual cost of more than \$5,000; capital projects, inclusive of ancillary costs, in excess of \$100,000; and an estimated useful life in excess of one year. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and Improvements	50 years
Infrastructure	20-50 years
Land Improvements	20-50 years
Machinery and Equipment	5-20 years

Compensated Absences

Regular, full-time employees begin to accrue vacation and sick leave when they are hired; however, they are not eligible to use vacation and sick leave until they have completed their first six months of employment. Sick leave is accrued at the rate of 12 days per completed year prorated at the rate of one day for each completed month of service. Employees may accumulate an unlimited number of sick leave days. One-half of the full amount accumulated up to 45 days maximum is paid if termination is through retirement or death. Vacation is accrued for each month of work performed. The accrual rate increases with years of service up to a maximum of 24 days per year for 20 years of service and over. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

Accumulated vacation and sick leave is accrued when incurred in the entity-wide financial statements and proprietary fund types. A liability is reported in the governmental funds only if it is expendable from available financial resources. Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental fund activities. Compensated absences associated with proprietary funds are liquidated from the fund in which the liability was generated.

At December 31, 2007, accrued compensated absences for governmental activities totaled \$450,759. This total is comprised of accrued vacation leave of \$140,254 and accrued sick leave of \$310,505. In addition, at December 31, 2007, accrued compensated absences in the business-type activities and proprietary funds totaled \$125,080. This total is comprised of accrued vacation leave of \$38,048 and accrued sick leave of \$87,032.

Long-term Obligations

In the entity-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In the fund financial statements, governmental fund types recognize bond premiums, discounts and bond issuance costs during the current financial period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Payments of long-term obligations are to be funded by the fund that incurred the debt.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The proprietary funds report the same three components of net assets as do the entity-wide financial statements. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources as they are needed.

Property Taxes

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on May 1 and are payable on or before September 30. Taxes paid before May 31 are given a six percent discount. Taxes paid after the payable date are assessed interest at 1-1/2 percent per month after the due date. The Town bills and collects its own property taxes. Town property tax revenues are recognized on a pro rata basis. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2007 was 17.26 cents per \$100 of assessed value.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

- b. The Town Council adopts legal annual budgets for the General Fund and Proprietary Funds. The Town Council also adopts legal project length budgets for its Capital Reserve Fund and certain nonmajor governmental funds. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the combined Capital Reserve Fund and certain nonmajor governmental funds would not be meaningful and has not been presented in the accompanying financial statements.
- c. The Town Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Town Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2007, there were revisions to the legally adopted budgets.

Excess of Expenditures Over Appropriations

The General Fund incurred expenditures in excess of appropriations in the following functions for the year ended December 31, 2007 as follows:

General government	\$ 106,378
Public works	\$ 113,088

All excess of expenditures over appropriations were funded by greater than anticipated revenues in the General Fund and budgeted transfers from the Town's proprietary funds.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS

The Town of Smyrna as a depositor and an investor generally requires full and continuous collateralization based upon fair value in the form of:

- Obligations of or guaranteed by the United States of America, or
- Obligations of the Federal National Mortgage Association, the Federal Home Mortgage Corporation, Public Housing Authority or an agency or instrumentality of the United States of America, or
- General or revenue obligations of the State of Delaware or its municipalities, subdivisions, public housing authorities or any agency or instrumentality of the State of Delaware.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

As an investor, the Town of Smyrna may invest in any of the above cited instruments and/or certificates of deposit or repurchase agreements fully collateralized by one or more of the above-cited instruments.

The Town maintains a cash and investment pool that is available for use by all funds. This pool is displayed on the balance sheet and the statement of net assets as either cash or investments. Deposits and investments of governmental, proprietary and fiduciary funds are reported at fair value.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2007, the carrying amount of the Town's deposits was \$1,910,458 and the bank balance was \$1,974,465. Of the bank balance, \$121,842 was covered by federal depository insurance, and \$1,852,623 was insured or registered and the securities held by the Town or its agent in the Town's name.

The above does not include pension fund deposits disclosed in Notes 7 and 8.

Investments

As of December 31, 2007, the Town had the following investments:

U.S. Treasury notes	\$ 743,029
Money market mutual funds	<u>4,275,001</u>
	<u>\$ 5,018,030</u>

U.S. Treasury notes are securities of agencies of the U.S. Government that have an implied but not explicit guarantee. Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk

The Town has an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments under the Town's investment policy are limited to a maximum maturity at time of purchase of four years. The Town may, for purposes of the Capital Reserve Fund only, invest in instruments having a maximum maturity at the time of purchase of

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

10 years; provided, however, that the maximum average maturity of the portfolio of the Capital Reserve Fund shall be seven years. At December 31, 2007, the Town's investments in U.S. Treasury notes had maturity dates of less than one year.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town has no investments subject to custodial credit risk.

Credit Risk

The Town has an investment policy which limits investment choices to those which are backed by the full faith and credit of the U.S. Government through either an explicit or implied manner; obligations of a state, county or city or institutional investment pools with a Moody's Investor Services rating of "A" or better or an equivalent rating from other industry-recognized rating agencies; and investments in corporate bonds and debentures with a Moody's Investor Services or Standard and Poors rating of at least "AA." The Town has no investments subject to credit risk.

Concentration Risk

The investment policy of the Town does not limit amounts invested in U.S. Government guaranteed obligations.

The above does not include pension fund investments disclosed in Notes 7 and 8.

NOTE 4 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 812,568	\$ 383,200	\$ -	\$ 1,195,768
Construction-in-progress	1,315,084	200,041	801,056	714,069
Total Capital Assets Not Being Depreciated	2,127,652	583,241	801,056	1,909,837
Capital assets being depreciated:				
Buildings and improvements	2,298,569	200,885	-	2,499,454
Infrastructure	12,988,079	1,173,897	-	14,161,976
Land improvements	527,175	45,200	-	572,375
Machinery and equipment	2,844,377	283,202	105,187	3,022,392
Total Capital Assets Being Depreciated	18,658,200	1,703,184	105,187	20,256,197

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4

CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings and Improvements	761,587	48,419	-	810,006
Infrastructure	3,122,323	472,176	-	3,594,499
Land improvements	333,026	13,508	-	346,534
Machinery and equipment	<u>1,631,654</u>	<u>270,085</u>	<u>44,412</u>	<u>1,857,327</u>
Total accumulated depreciation	<u>5,848,590</u>	<u>804,188</u>	<u>44,412</u>	<u>6,608,366</u>
 Total Capital Assets Being Depreciated, Net	<u>12,809,610</u>	<u>898,996</u>	<u>60,775</u>	<u>13,647,831</u>
 Governmental Activities Assets, Net	<u>\$14,937,262</u>	<u>\$1,482,237</u>	<u>\$861,831</u>	<u>\$15,557,668</u>
 Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 45,171	\$ -	\$ -	\$ 45,171
Construction-in-progress	<u>1,009,747</u>	<u>631,231</u>	<u>989,821</u>	<u>651,157</u>
Total Capital Assets Not Being Depreciated	<u>1,054,918</u>	<u>631,231</u>	<u>989,821</u>	<u>696,328</u>
 Capital assets being depreciated:				
Buildings and improvements	2,702,223	236,359	-	2,938,582
Infrastructure	23,069,680	2,390,360	-	25,460,040
Machinery and equipment	<u>1,180,240</u>	<u>11,737</u>	<u>-</u>	<u>1,191,977</u>
Total Capital Assets Being Depreciated	<u>26,952,143</u>	<u>2,638,456</u>	<u>-</u>	<u>29,590,599</u>
 Accumulated depreciation:				
Buildings and improvements	442,096	35,530	-	477,626
Infrastructure	2,551,233	621,307	-	3,172,540
Machinery and equipment	<u>707,338</u>	<u>89,917</u>	<u>-</u>	<u>797,255</u>
Total accumulated depreciation	<u>3,700,667</u>	<u>746,754</u>	<u>-</u>	<u>4,447,421</u>
 Total Capital Assets Being Depreciated, Net	<u>23,251,476</u>	<u>1,891,702</u>	<u>-</u>	<u>25,143,178</u>
 Business-type Activities Assets, Net	<u>\$24,306,394</u>	<u>\$2,522,933</u>	<u>\$989,821</u>	<u>\$25,839,506</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:

General government	\$ 412,395
Public safety	105,678
Public works	122,624
Planning and inspection	7,153
Library	144,215
Culture and recreation	<u>12,123</u>

Total Depreciation Expense - Governmental Activities \$ 804,188

TOWN OF SMYRNA
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

Business-type Activities:	
Electric	\$ 414,765
Water	<u>331,989</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 746,754</u>

NOTE 5 LONG-TERM DEBT

A schedule of changes in long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	<u>\$ 620,332</u>	<u>\$ 307,674</u>	<u>\$ 477,247</u>	<u>\$ 450,759</u>	<u>\$ 153,535</u>
Business-type Activities:					
Loans payable	\$2,539,381	\$5,410,470	\$ 159,081	\$7,790,770	\$ 295,794
Bond anticipation note	4,644,000	-	4,644,000	-	-
Compensated absences	<u>148,685</u>	<u>62,876</u>	<u>86,481</u>	<u>125,080</u>	<u>38,896</u>
Total	<u>\$7,332,066</u>	<u>\$5,473,346</u>	<u>\$4,889,562</u>	<u>\$7,915,850</u>	<u>\$ 334,690</u>

Loans Payable

Loan payable issued by the Delaware Economic Development Authority to fund the Town's water main expansion which will serve the WalMart Distribution Center on Route 300. The loan matures on May 1, 2013 and bears no interest. Annual principal payments in the amount of \$7,500 are due on May 1.

\$ 45,000

Loan payable issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to fund a drinking water well located on Carter Road. The loan matures on May 1, 2024 and bears interest at 2.72% payable on May 1 and November 1.

1,458,555

Loan payable issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to fund the North Water Tower. The loan matures on May 15, 2027 and bears interest at 2.41% payable on May 15 and November 15.

1,725,582

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

The Town obtained permanent financing in the amount of \$4,644,000 to pay off a Bond Anticipation Note which matured April 27, 2007. The proceeds from the Bond Anticipation Note were used to finance the development and construction of an electric substation. The loan requires monthly payments of \$29,380, including interest at 4.50%, with a balloon payment due May 14, 2012.

4,561,633

\$ 7,790,770

An analysis of debt service requirements to maturity on the loans is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Maturities</u>
2008	\$ 295,794	\$ 286,001	\$ 581,795
2009	306,877	274,919	581,796
2010	317,814	263,981	581,795
2011	329,183	252,612	581,795
2012	4,093,802	139,298	4,233,100
2013 - 2017	853,082	263,378	1,116,460
2018 - 2022	960,654	148,006	1,108,660
2023 - 2027	<u>633,564</u>	<u>33,324</u>	<u>666,888</u>
Total	<u>\$ 7,790,770</u>	<u>\$ 1,661,519</u>	<u>\$ 9,452,289</u>

NOTE 6 INTERFUND BALANCE AND TRANSFERS

The composition of the interfund balance as of December 31, 2007 is as follows:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 155,625	\$ 7,416
Electric Fund	-	152,105
Nonmajor Governmental Fund	<u>7,416</u>	<u>3,520</u>
TOTAL	<u>\$ 163,041</u>	<u>\$ 163,041</u>

A significant portion of the interfund balance represents amounts refunded to electric customers for overpayments by the General Fund and not reimbursed by the Electric Fund as of December 31, 2007.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INTERFUND BALANCE AND TRANSFERS (cont'd)

The composition of interfund transfers for the year ended December 31, 2007 were as follows:

<u>Interfund Transfers</u>	<u>Transfer to Other Funds</u>	<u>Transfer from Other Funds</u>
General Fund	\$ 74,397	\$ 1,194,967
Capital Reserve Fund	259,659	1,543,211
Water and Sewer Fund	509,521	159,120
Electric Fund	2,224,831	100,538
Nonmajor Governmental Fund	<u>3,825</u>	<u>74,397</u>
TOTAL	<u>\$ 3,072,233</u>	<u>\$ 3,072,233</u>

Transfers from the proprietary funds to the General Fund represent Board-approved transfers to subsidize the operations of the Town's primary government. All other transfers represent the flow of resources to accommodate the costs of certain capital projects.

NOTE 7 POLICE PENSION FUND

Plan Description and Provisions

The Town's Police Pension Fund is a single-employer defined benefit pension plan established to provide a retirement income to supplement the benefits payable under Social Security. The full cost of the plan is assumed by the Town. Contributions are not required of the Town's police officers.

The plan was established as of January 1, 1996, spun off in 1975 to create the current plans revised as of January 1994. The financial records are maintained on a plan year which begins each January 1 and ends on December 31.

The plans are administered by the Committee (Plan Administration) which is comprised of the Mayor and Town Council. The Committee is fully responsible for the plan's administration, including eligibility for participation and determination of benefits. The Town Council has delegated the authority to manage certain plan assets to Linsco/Private Ledger Financial Services and Aetna Life Insurance Company.

As of January 1, 2007, pension plan membership consisted of the following:

Active employees	19
Terminated vested participants	4
Retirees and beneficiaries currently receiving benefits	<u>8</u>
	<u>31</u>

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

Police Pension Fund plan benefit provisions are as follows:

All police officers are eligible to participate in the plan after completing one year of service, if they have attained their 21st birthday and 1,000 hours of continuous employment during the plan year.

Effective January 1, 1993, employees who are discharged or resign before qualifying for retirement benefits will be entitled to 100 percent vested interest in their accrued pension benefits, payable as of the first day of the month following their normal retirement date provided that they have completed at least five full years of service to the Town.

The pension plan provides for normal retirement at the earlier of attainment of age 50 and completion of 10 years of participation or completion of 20 years of vesting service; and for employees hired after April 19, 1999, the earlier of attainment of age 55 and completion of 10 years of participation, or completion of 20 years of vesting service.

Participant benefits are based on 2-1/2 percent of the three highest years of average compensation multiplied by benefit service.

There is no provision for early retirement.

Basis of Accounting

The plan's policy is to prepare its financial statements on the accrual basis of accounting.

Valuation of Investments

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the company.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2007, the carrying amount and bank balance of the police pension fund deposits was \$192,685. Of this amount, \$108,422

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

was insured or registered and the securities held by the Town or its agent in the Town's name; and \$84,263 was equal to the deposits in a federated prime obligations fund held by the trustee of the pension plan in the Town's name.

Investments

The investment objective of the Town of Smyrna Police Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income and cash equivalent securities and, as such, is intended to be structured less aggressively than speculative portfolios.

As of December 31, 2007, the Town of Smyrna Police Pension Plan had the following investments:

	<u>Fair Value</u>
Domestic equity mutual funds and corporate bonds	\$ 1,443,482
Unallocated fixed income insurance contracts	<u>1,810,854</u>
Total	<u>\$ 3,254,336</u>

Investments in external investment pools, such as those in mutual funds and fixed income insurance contracts, are disclosed but not subject to interest rate, custodial, credit or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged and paid by short-term assets of the plan.

Annual Pension Cost

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal method assuming an investment return of seven percent and a compensation increase of 4.5 percent per year. Prior to the 2004 fiscal year, employer contributions were determined on an actuarial basis using the frozen age entry method. The change in the Town's funding policy from the frozen age entry method to the entry age normal method was implemented to eliminate the plan's unfunded actuarial liability at the end of 15 years from January 1, 2004.

The entry age normal method determines a projected benefit at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of compensation each year, it would accumulate at the valuation interest rate over the total prior and future years of service to the assumed retirement date into an amount

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

sufficient to fund the projected benefit. The plan's accrued liability is the sum of the accumulation of each active participant's normal costs attributable to all prior years of service plus the present value of each inactive participant's future benefits.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/07	\$ 434,667	106.82%	\$ (128,071)
12/31/06	\$ 355,321	91.70%	\$ (98,442)
12/31/05	\$ 363,687	95.10%	\$ (127,857)

The above information regarding the Police Pension Fund was taken from the January 1, 2007 Actuarial Valuation presented by Milliman USA, Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA dated December 2007.

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND

Plan Description and Provisions

The Town's Full-Time Employee Pension Fund is a single-employer defined benefit pension plan established to provide a retirement income to supplement the benefits payable under Social Security. The full cost of the plan is assumed by the Town. Contributions are not required of the Town's employees.

The plan was established as of January 1, 1996, spun off in 1975 to create the current plans revised as of January 1994. The financial records are maintained on a plan year which begins each January 1 and ends on December 31.

The plans are administered by the Committee (Plan Administration) which is comprised of the Mayor and Town Council. The Committee is fully responsible for the plan's administration, including eligibility for participation and determination of benefits. The Town Council has delegated the authority to manage certain plan assets to Linsco/Private Ledger Financial Services and Aetna Life Insurance Company.

As of January 1, 2007, pension plan membership consisted of the following:

Active employees	48
Terminated vested participants	21
Retirees and beneficiaries currently receiving benefits	<u>6</u>
	<u>75</u>

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND (cont'd)

Full-time Employee Pension Fund plan benefit provisions are as follows:

All full-time employees are eligible to participate in the plan after completing one year of service, if they have attained their 21st birthday and 1,000 hours of continuous employment during the plan year.

Effective January 1, 1993, employees who are discharged or resign before qualifying for retirement benefits will be entitled to 100 percent vested interest in their accrued pension benefits, payable as of the first day of the month following their normal retirement date provided that they have completed at least five full years of service to the Town.

The pension plan provides for normal retirement at age 65 and completion of 10 years of participation, or completion of 25 years of vesting service.

Effective January 1, 2007, participant benefits are based on 2-1/2 percent of the three highest years of average compensation multiplied by benefit service not to exceed 40 years. Benefits for service prior to January 1, 2007 were based on a two percent benefit multiplier.

Eligibility for early retirement benefit is age 55 and 10 years of vesting service.

Valuation of Investments

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the company.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2007, the carrying amount and bank balance of the full-time employee pension fund deposits was \$175,008. Of this amount, \$103,693 was insured or registered and the securities held by the Town or its agent in the Town's name; and \$71,315 was equal to the deposits in a federated prime obligations fund held by the trustee of the pension plan in the Town's name.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND (cont'd)

Investments

The investment objective of the Town of Smyrna Full-time Employee Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income and cash equivalent securities and, as such, is intended to be structured less aggressively than speculative portfolios.

As of December 31, 2007, the Town of Smyrna Full-time Employee Pension Plan had the following investments:

	<u>Fair Value</u>
Domestic equity mutual funds and corporate bonds	\$ 2,149,184
Unallocated fixed income insurance contracts	<u>1,339,121</u>
Total	<u>\$ 3,488,305</u>

Investments in external investment pools, such as those in mutual funds and fixed income insurance contracts, are disclosed but not subject to interest rate, custodial, credit or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged and paid by short-term assets of the plan.

Annual Pension Cost

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal method assuming an investment return of seven percent and a compensation increase of 4.5 percent per year. Prior to the 2004 fiscal year, employer contributions were determined on an actuarial basis using the frozen age entry method. The change in the Town's funding policy from the frozen age entry method to the entry age normal method was implemented to eliminate the plan's unfunded actuarial liability at the end of 15 years from January 1, 2004.

The entry age normal method determines a projected benefit at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of compensation each year, it would accumulate at the valuation interest rate over the total prior and future years of service to the assumed retirement date into an amount sufficient to fund the projected benefit. The plan's accrued liability is the sum of the accumulation of each active participant's normal costs attributable to all prior years of service plus the present value of each inactive participant's future benefits.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND (cont'd)

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/07	\$ 415,674	108.09%	\$ (346,739)
12/31/06	\$ 238,958	150.40%	\$ (313,129)
12/31/05	\$ 235,818	122.60%	\$ (192,513)

The above information regarding the Full-time Employees Pension Fund was taken from the January 1, 2007 Actuarial Valuation presented by Milliman USA, Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA dated December 2007.

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS

In addition to the pension benefits described in Notes 7 and 8, the Town provides post-employment retirement healthcare benefits for employees that meet eligibility requirements. The benefit allows employees to continue under the Town health insurance group plan with coverage being provided only to the retired employee and his or her spouse with the following limits:

Employees retiring prior to September 15, 1997

1. The retired employee shall pay 15 percent of the total premium costs.
2. Employees must meet the service time and age schedule at the time they retire from the Town to be eligible for participation in the plan.
3. Upon the death of the retired employee, spouses are permitted to maintain individual coverage on the plan, but shall pay 100 percent of the cost.
4. The Town's cost for the spouse's coverage shall not exceed the cost of the retired employee's coverage.

As of December 31, 2007, two employees were eligible for this benefit.

Employees retiring on September 15, 1997 and thereafter

1. The Town will pay 100 percent of the total premium cost for the retired employee. In addition, as of December 31, 2004, the Town will pay 85 percent of the health insurance contract of the spouse and all eligible dependents for eligible retired police employees, with the retired police employee responsible for the remaining 15 percent.
2. Employees must meet the service time and age schedule at the time they retire from the Town to be eligible for participation in the plan.

As of December 31, 2007, two employees were eligible for this benefit.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

Union Employees

Union employees are excluded from all post-employment retirement benefits.

Post-employment retirement benefits are recognized when paid. Post-employment retirement benefits for the year ended December 31, 2007 totaled \$47,991.

NOTE 10 DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The plan is available to all employees until termination, retirement, death or unforeseeable emergency. The assets of the plan are held for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. Each participant directs the investments in his/her respective accounts, and the Town has no liability for any losses that may be incurred.

NOTE 11 COMMITMENTS AND CONTINGENCIES

The Town participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Town is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

The Town is a member of the Delaware Municipal Electric Corporation (DEMEC). DEMEC is a public corporation constituted as a joint action agency and a wholesale electric utility. DEMEC was established in 1979 and represents nine municipal electric distribution utilities located in the State of Delaware. DEMEC provides full requirements wholesale electric power supply service to seven of the nine members, including the Town, through the operation of owned generation assets and various contractual wholesale supply contracts with external parties.

The Town purchases 100 percent of its electric supply requirements from DEMEC under a full requirements service contract that became effective June 1, 2004 and which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the Town to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of this agreement.

The Town has entered into a separate power sales agreement effective May 1, 2001 to purchase an interest in the capacity produced by Unit No. 1 of the Warrant F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. The Town is entitled

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES (cont'd)

to a percentage of all power supply and ancillary products generated from the existing nominal 45 MW natural gas-fired combustion turbine generator for the useful life of the facility.

Under the terms of the various agreements, DEMEC is authorized to act as agent for the Town in all matters relating to the acquisition and delivery of its wholesale power supply and management of energy cost risk on behalf of the Town in the deregulated energy markets.

Outstanding construction commitments as of December 31, 2007 for the Town are as follows:

	<u>Contract Amount</u>	<u>Completed 12/31/2007</u>	<u>Commitment 12/31/2007</u>
Smyrna Municipal Complex - Phase I	<u>\$ 592,686</u>	<u>\$ 106,793</u>	<u>\$ 485,893</u>

An additional \$1,258,433 of construction-in-progress that was not under a formal construction commitment or placed in service as of December 31, 2007 has been reflected in the accompanying financial statements.

NOTE 12 LAND HELD FOR RESALE

On October 24, 1995, the Town entered into an agreement with the Delaware Economic Development Office to obtain funding for the purchase of property to be used for the development of the Smyrna Industrial Park. On July 25, 1996, the Town purchased 95.8286 acres for one million dollars with funds supplied by the State of Delaware Economic Development Office. In accordance with the agreement, the Town has provided matching funds equal to the purchase price of the property. The matching funds were used for infrastructure, consulting and marketing associated with the project.

The Town designated 50.69 acres of the Smyrna Industrial Park as land held for resale. The Town recorded these parcels of land held for resale in its financial records. The properties held for resale are recorded at the lower of cost or net realizable value. At December 31, 2007, remaining land held for resale totaled \$45,080 (4.32 acres), with this amount offset by a reservation of fund balance in the governmental funds financial statements. On February 29, 2008, the Town sold this property for an amount totaling \$691,200.

NOTE 13 RISK MANAGEMENT

The Town maintains commercial insurance coverage for risk of losses relating to general, automotive, police professional, public officials and crime. There has been no significant change in coverage and there have been no losses above insurance limits during the past year.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 PRIOR PERIOD ADJUSTMENT

Completion of a valuation of contributed infrastructure from outside developers resulted in a restatement of net assets in the entity-wide financial statements and the proprietary funds as of January 1, 2006. As a result of the prior period adjustment, net assets in the governmental activities increased by \$5,384,449 and business-type activities and proprietary fund net assets increased by \$4,644,502.

In addition, the Town has restated prior year comparative information as of December 31, 2006 to reflect changes based on the valuation of contributed infrastructure.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SMYRNA, DELAWARE

SCHEDULE OF FUNDING PROGRESS - PENSION PLANS

REQUIRED SUPPLEMENTARY INFORMATION

	(1)	(2)	(3)	(4)	(5)	(6)
Calendar Year	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded (assets in excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded (assets in excess of) Accrued Liability as a % of Payroll (4)/(5)
POLICE						
1/1/03	\$1,404,522	\$1,862,529	75.41%	\$ 458,007	\$ 654,884	69.94%
1/1/04	\$2,125,582	\$2,979,009	71.35%	\$ 853,427	\$ 850,731	100.32%
1/1/05	\$2,470,563	\$4,283,237	57.68%	\$1,812,674	\$ 888,480	204.02%
1/1/06	\$2,798,043	\$4,781,778	58.51%	\$1,983,735	\$1,033,220	191.99%
1/1/07	\$3,302,971	\$5,218,074	63.29%	\$1,915,103	\$1,051,536	182.12%
FULL-TIME EMPLOYEE						
1/1/03	\$1,514,451	\$2,005,501	75.51%	\$ 491,050	\$ 910,072	53.96%
1/1/04	\$2,053,994	\$2,626,331	78.21%	\$ 572,337	\$1,319,652	43.37%
1/1/05	\$2,415,258	\$2,807,982	86.01%	\$ 392,724	\$1,495,680	26.26%
1/1/06	\$2,730,679	\$3,846,596	70.99%	\$1,115,917	\$1,699,532	65.66%
1/1/07	\$3,341,855	\$4,477,833	74.63%	\$1,135,978	\$2,005,968	56.63%

Effective for the year beginning January 1, 2004, actuarial valuations were calculated using the entry age normal actuarial cost method. Prior year actuarial valuations were calculated using the frozen age entry actuarial cost method.

The above information regarding the Police and Full-time Employee Pension Funds was taken from Actuarial Valuations presented by Milliman, USA Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA.

COMBINING NONMAJOR FUND STATEMENTS

TOWN OF SMYRNA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Resource Officer Fund	Forfeiture Fund	Totals
ASSETS						
Cash and cash equivalents	\$ -	\$ 5,302	\$ 4,353	\$ 22,373	\$ 14,332	\$ 46,360
Investments	213,770	-	-	-	-	213,770
Due from other funds	-	-	-	-	7,416	7,416
TOTAL ASSETS	<u>\$ 213,770</u>	<u>\$ 5,302</u>	<u>\$ 4,353</u>	<u>\$ 22,373</u>	<u>\$ 21,748</u>	<u>\$ 267,546</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Due to other funds	\$ 3,520	\$ -	\$ -	\$ -	\$ -	\$ 3,520
TOTAL LIABILITIES	<u>3,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,520</u>
FUND BALANCES:						
Reserved for:						
Police expenditures	-	5,302	4,353	22,373	21,748	53,776
Public works expenditures	210,250	-	-	-	-	210,250
TOTAL FUND BALANCES	<u>210,250</u>	<u>5,302</u>	<u>4,353</u>	<u>22,373</u>	<u>21,748</u>	<u>264,026</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 213,770</u>	<u>\$ 5,302</u>	<u>\$ 4,353</u>	<u>\$ 22,373</u>	<u>\$ 21,748</u>	<u>\$ 267,546</u>

TOWN OF SMYRNA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Resource Officer Fund	Forfeiture Fund	Total
REVENUES						
Intergovernmental	\$ 188,156	\$ 13,739	\$ 8,399	\$ 18,750	\$ 10,462	\$ 239,506
Miscellaneous	-	-	-	1,500	725	2,225
Investment income	14,621	-	-	-	-	14,621
TOTAL REVENUES	<u>202,777</u>	<u>13,739</u>	<u>8,399</u>	<u>20,250</u>	<u>11,187</u>	<u>256,352</u>
EXPENDITURES						
Current:						
Public safety - police	-	12,262	8,536	16,600	9,686	47,084
Public works	234,932	-	-	-	-	234,932
TOTAL EXPENDITURES	<u>234,932</u>	<u>12,262</u>	<u>8,536</u>	<u>16,600</u>	<u>9,686</u>	<u>282,016</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(32,155)</u>	<u>1,477</u>	<u>(137)</u>	<u>3,650</u>	<u>1,501</u>	<u>(25,664)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	74,397	-	-	-	-	74,397
Transfers out	(3,825)	-	-	-	-	(3,825)
TOTAL OTHER FINANCING SOURCES	<u>70,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,572</u>
CHANGE IN FUND BALANCES	38,417	1,477	(137)	3,650	1,501	44,908
FUND BALANCES, BEGINNING OF YEAR	<u>171,833</u>	<u>3,825</u>	<u>4,490</u>	<u>18,723</u>	<u>20,247</u>	<u>219,118</u>
FUND BALANCES, END OF YEAR	<u>\$ 210,250</u>	<u>\$ 5,302</u>	<u>\$ 4,353</u>	<u>\$ 22,373</u>	<u>\$ 21,748</u>	<u>\$ 264,026</u>

OTHER REPORTS

Media, Pennsylvania
610.565.5222

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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July 28, 2008

To the Honorable Mayor and Town Council
Town of Smyrna
Smyrna, Delaware

We have audited the financial statements of the Town of Smyrna, Smyrna, Delaware as of and for the year ended December 31, 2007 and have issued our report thereon dated July 28, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Smyrna's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Smyrna's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency exists when a design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Honorable Mayor and Town Council
Town of Smyrna

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Smyrna's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We also noted other matters that we have reported to management of the Town of Smyrna in a separate letter dated July 28, 2008.

This report is intended solely for the information and use of the Mayor, the Town Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

TOWN OF SMYRNA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

05-1 RECONCILIATION OF GENERAL LEDGER TO SUBSIDIARY LEDGERS AND SUPPORTING DOCUMENTS

Condition: General ledger accounts were not reconciled to subsidiary ledgers and supporting documents for the year ended December 31, 2006. As a result, many transactions were not summarized in the general ledger, nor were all transactions recorded on the books. The following critical reconciliations for the purposes of our audit procedures were not in agreement with general ledger accounts upon commencement of the audit.

- A cash reconciliation that reconciles from the bank balance to the general ledger to verify that all cash transactions have been recorded properly.
- A reconciliation of accounts receivable from the general ledger to the accounts receivable detail ledger to substantiate the recording of transactions is accurate and proper and that any adjustments or write-offs have been documented.
- A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register to substantiate that all additions to, and payments of, accounts payable are correctly recorded.
- Reconciliations of other general ledger account balances such as loan balances, capital assets, etc., to subsidiary ledgers and supporting documents.

Effect: The Town does not maintain an adequate set of financial records that allow for the preparation of accurate and reliable information. As a result, management and the Town Council are making financial decisions on incomplete and/or inaccurate information during the year, and excessive time is spent at year end preparing and auditing the Town's financial records.

Recommendation: The Town cannot continue to operate with inadequate financial recordkeeping given the state of growth the Town is experiencing. We recommend that management and the Town Council take immediate action to remedy the above-noted deficiencies to ensure that the Town is demonstrating fiscal responsibility.

Status: Based on our prior year finding, management implemented a new accounting and utility billing system to replace the previous system which was in effect during the current year for a full year since the prior year audit. Our assessment of the new system has determined that it does allow management to reconcile the general ledger accurately and in a timely manner. During our current year audit, we noted the full implementation of the new accounting billing system for the entire year, and reconciliation to the general ledger was performed. This performance was attributed not only to a full year's use of the new system but the hiring of an outside accountant with a governmental financial reporting background who ensured that all accounts were reconciled to subsidiary ledgers and supporting documentation. This finding is no longer applicable.